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Q2'26 Earnings | Food segment continues to support margin resilience

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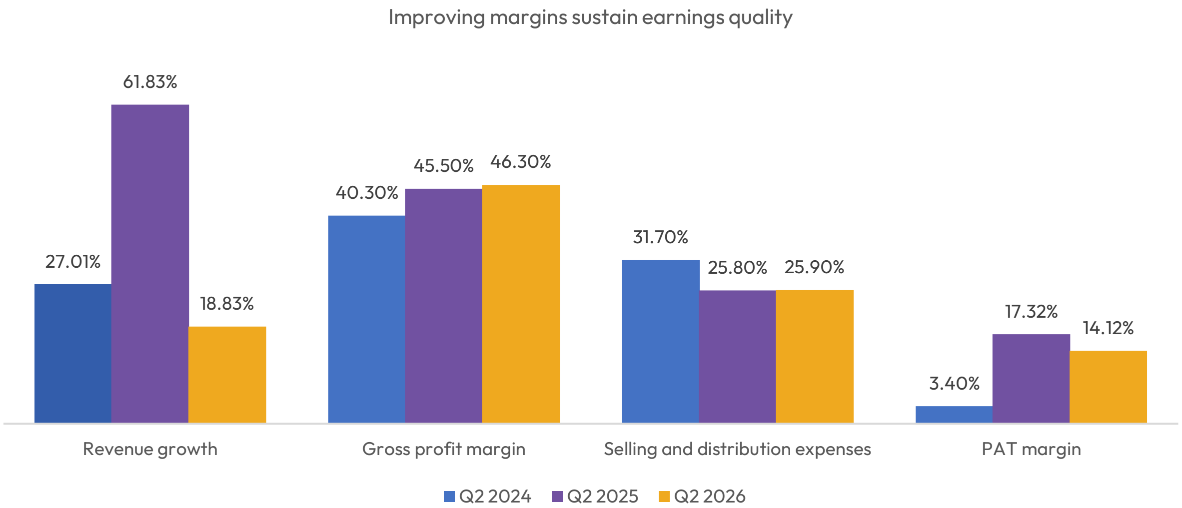
Rating	SELL
NGX Ticker	UNILEVER
Bloomberg Ticker	UNILEVER NL
Target Price	N125.24

Company statistics (Q2'26)	
Return on Asset	4.84%
Profit Margin	14.92%
Debt-to-equity ratio	2.08%
Market cap	₦786 billion

Unilever Nigeria Plc delivered another resilient set of results in Q2'26, building on the strong improved Q1'2026 performance. Revenue increased by 18.8% year-on-year to ₦60.75 billion, while growing a more modest 2.7% quarter-on-quarter, suggesting that topline growth is gradually normalising following the stronger pricing-led expansion recorded over the past years (2024 and 2025). Despite the softer pace of revenue growth, the company continued to demonstrate strong execution, supported by improving cost efficiency, as reflected in the continued expansion of gross margins, alongside disciplined pricing and resilient demand especially across its food portfolio.

The standout feature of the quarter was the continued improvement in profitability. Gross profit increased 20.9% year-on-year and 5.7% quarter-on-quarter to ₦28.12 billion, with the gross profit margin expanding further to 46.3%, compared with 45.0% in Q1'26 and 45.5% in Q2'25. Consequently, the cost of sales to revenue margin declined to 53.7%, reflecting sustained procurement efficiencies, favourable sourcing arrangements, and the benefits of increased localisation of raw material inputs. The continued expansion in gross margins indicates that the company has largely succeeded in protecting profitability despite the re-emergence of inflationary pressures and higher logistics costs during the quarter.



Source: Company Filings, Zedcrest Research

The Food segment remained the key driver of Unilever's performance in Q2'26. Revenue increased 26.3% year-on-year and 4.4% quarter-on-quarter to ₦39.36 billion, raising its contribution to group revenue to 64.8% from 63.7% in Q1'26. The continued growth highlights resilient demand across the company's core food brands despite the challenging consumer environment, reinforcing our view that staple food products remain relatively insulated from weak purchasing power.

The personal care segment delivered a more subdued performance. Revenue grew 4.7% year-on-year to ₦15.13 billion but declined 4.5% quarter-on-quarter, reducing its contribution to group revenue to 24.9% from 26.8% in the preceding quarter. The sequential decline reflects persistent pressure on discretionary consumer spending, as households continue to prioritise essential products amid elevated inflation.

The beauty and wellbeing segment posted the strongest sequential improvement during the quarter. Revenue increased 13.6% year-on-year and 10.9% quarter-on-quarter to ₦6.26 billion, increasing its contribution to group revenue to 10.3% from 9.5% in Q1'26. Although the segment remains relatively small, the performance likely reflects improved execution across selected brands, supported by marketing

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initiatives, product availability and distribution gains, rather than a broad-based recovery in discretionary consumer spending.

Overall, the revenue mix continued to shift in favour of the food segment, which now accounts for nearly 65% of group sales. We expect food products to remain the primary earnings driver through the remainder of 2026, while a gradual recovery in Beauty and Wellbeing and stabilisation in Personal Care should provide incremental support to overall revenue growth.

Operating profit remained resilient during the quarter, with operating profit increasing 22.1% year-on-year and 12.1% quarter-on-quarter to ₦12.87 billion. Operating expenses, however, presented a mixed picture. Selling and distribution expenses surged 124.0% year-on-year and 54.0% quarter-on-quarter, reflecting persistent transportation and logistics cost pressures following elevated domestic fuel prices. By contrast, marketing and administrative expenses increased a modest 7.5% year-on-year but eased 5.6% quarter-on-quarter, partially offsetting the sharp increase in selling and distribution expenses. Consequently, while continued procurement efficiencies drove gross profit margin higher to 46.3% from 40.1% in Q2'25 and 45.0% in Q1'26, higher distribution costs limited the pass-through of these gains, with operating profit margin improving to 21.2% from 20.6% in Q2'25.

Financial performance below the operating line also improved significantly. Net finance income rose 48.5% quarter-on-quarter to ₦2.88 billion, supported by sharply lower finance costs and continued income from surplus cash invested. Finance costs declined 4.8% year-on-year and 78.8% quarter-on-quarter to ₦296.5 million, reflecting the company's limited reliance on interest-bearing debt. Consequently, profit before tax increased 17.6% year-on-year and 17.4% quarter-on-quarter to ₦15.75 billion, highlighting the benefits of the company's strong balance sheet and conservative financing structure.

Bottom-line performance presented a mixed picture during the quarter. Profit after tax declined 3.1% year-on-year to ₦8.58 billion, primarily due to a higher effective tax charge, as income tax expense increased 57.8% year-on-year and 12.1% quarter-on-quarter. Nevertheless, on a sequential basis, profit after tax improved 22.2% from Q1'26, with profit margin expanding to 14.1% from 11.9%, reflecting stronger operating performance and improved net finance income. Despite the higher tax burden, the continued improvement in underlying profitability reinforces our view that Unilever's earnings recovery is increasingly being driven by structural improvements in operating efficiency rather than pricing alone.

Operationally, Q2'26 further validates management's execution strategy. Continued procurement optimisation, disciplined cost management and a greater focus on higher-margin product categories supported earnings quality, while the resilience of the food portfolio continued to offset weaker demand across discretionary personal care products. This remains consistent with our expectation that food manufacturers will outperform more discretionary consumer segments in the current macroeconomic environment.

Limited upside despite strong fundamentals

Consistent with our revised operating assumptions, we forecast Unilever Nigeria Plc's FY2026 revenue to increase 30.0% year-on-year to ₦278.6 billion, primarily supported by continued growth in the Food segment, which we expect to remain the company's largest revenue contributor. We anticipate procurement efficiencies, disciplined pricing and an improved product mix to sustain gross margin resilience, although elevated transportation and distribution costs are expected to remain a key cost headwind. Nevertheless, we expect continued operating leverage and healthy net finance income to support earnings growth over the medium term.

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Our cash flow outlook remains constructive, supported by Unilever Nigeria's asset-light operating model, resilient earnings generation and disciplined working capital management, all of which continue to underpin strong free cash flow generation. With minimal leverage and one of the cleanest balance sheets in the Nigerian consumer goods sector, the company remains well positioned to internally finance selective capacity expansion, brand investments and product innovation while maintaining financial flexibility and a sustainable dividend profile.

Fundamentally, we continue to view Unilever Nigeria as one of the highest-quality consumer companies under our coverage. The company benefits from a portfolio of market-leading brands, resilient cash flow generation, prudent capital allocation and a robust liquidity position, which should enable it to navigate a still challenging consumer environment while continuing to deliver consistent earnings growth over the medium term.

Reflecting these expectations, we maintain our SELL recommendation with a 12-month target price of **₦125.24** per share. While we remain constructive on the company's long-term fundamentals, we believe its strong earnings outlook, resilient food franchise, superior balance sheet quality and robust cash generation are already largely reflected in the current market valuation, leaving limited upside from prevailing price levels. That said, the principal upside risk to our outlook would stem from a stronger-than-expected recovery in discretionary consumer spending, particularly within the Personal Care segment, which could drive faster revenue growth and stronger earnings than currently anticipated.

N'000	2026F	2027F	2028F	2029F	2030F
Revenue	278,592,800	376,100,280	519,265,149	709,303,044	956,961,660
Gross Profit	119,794,904	173,006,129	238,861,969	326,279,400	440,202,364
EBITDA	56,741,887	89,838,914	127,367,737	168,037,870	229,003,200
Profit Before Tax	63,198,167	96,024,456	132,269,285	172,028,702	232,126,432
Profit after tax	41,710,790	63,376,141	87,297,728	113,538,943	153,203,445

	2026F	2027F	2028F	2029F	2030F
Gross profit margin	43.00%	46.00%	46.00%	46.00%	46.00%
EBITDA margin	20.37%	23.89%	24.53%	23.69%	23.93%
Operating profit margin	19.36%	22.67%	23.22%	22.39%	22.66%
PBT margin	22.68%	25.53%	25.47%	24.25%	24.26%
PAT margin	14.97%	16.85%	16.81%	16.01%	16.01%

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